



Office of Audit Services
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March 13, 2009

AGENDA ITEM 5

TO: MEMBERS OF THE FINANCE COMMITTEE

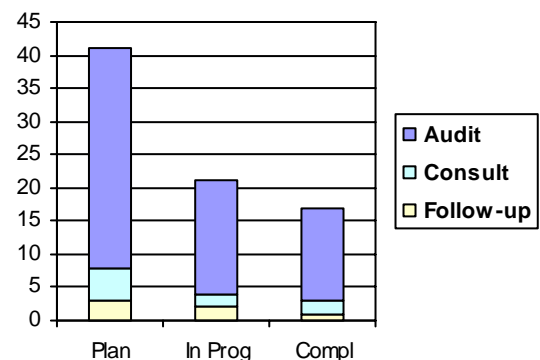
- I. **SUBJECT:** Quarterly Status Report
- II. **PROGRAM:** Audit Services
- III. **RECOMMENDATION:** Information only
- IV. **SUMMARY:** Quarterly Status Report

In accordance with the Finance Committee's Audit Resolution Policy and Procedures, the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of audits and special projects as of December 31, 2008.

1. Status of projects and activities in the Fiscal Year 2008 / 2009 Board approved annual Audit Plan

Internal Audits – Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Detail on these projects is provided on Attachment 1A.

2008/09 Board Approved Audit Plan	Plan	In Progress	Complete
Audit Projects	33	17 ^A	14 ^A
Consulting Projects	5	2	2 ^A
Audit Follow-up	3	2	1

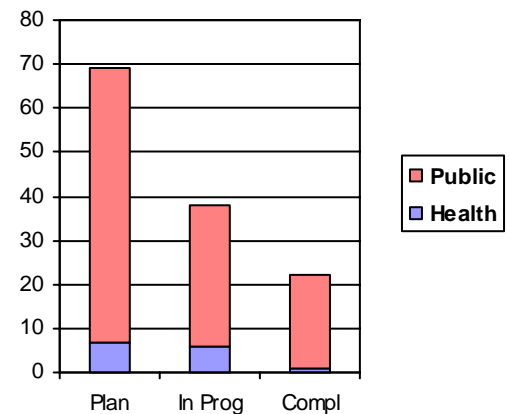


^A – Includes audits started in the prior fiscal year as shown in Attachment 1A

Members of the Finance Committee
March 13, 2009

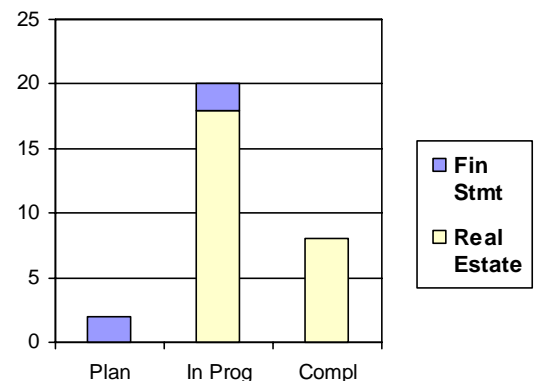
- B. Field Audits and Reviews– Field audits and reviews include compliance reviews of employer entities belonging to the System, audits of health maintenance organizations contracting with the System, and compliance audits of health care third-party administrators. Detail on these projects is provided on Attachment 1B.

2008/09 Board Approved Audit Plan	Plan	In Progress	Complete
Contracting Public Agency Reviews	62	32 ^A	21 ^A
Health Plan Audits	7	6 ^A	1 ^A



- C. Contract Audits – Contract audits include audit work performed by external auditors. The number of real estate audits is determined over the course of the fiscal year. Detail on these projects is provided on Attachment 1C.

2008/09 Board Approved Contract Auditor	Plan	In Progress	Complete
Financial Statement Audits	2	2	0
Real Estate Audits	As requested	18 ^B	8 ^B

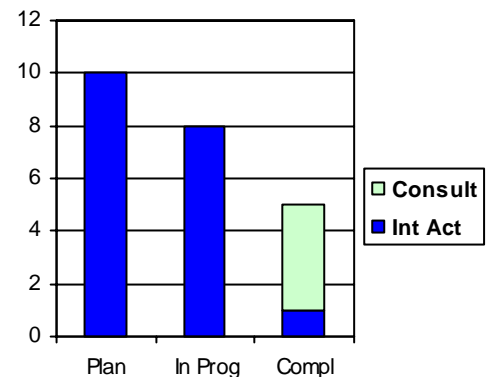


^A – Includes audits started in prior fiscal year as shown in Attachment 1B

^B – Includes audits started in prior fiscal year as shown in Attachment 1C

D. Management Consulting Projects - In addition to the specific projects in the approved Audit Plan, during the year the Office of Audit Services responds to subsequent requests from the Board of Administration, Executive Management, and program divisions for audit and consulting projects. The approved Audit Plan includes an allocation of hours for these projects. Detail on these projects is provided in Attachment 1D.

Management Consulting Projects	Plan	In Progress	Complete
Management Consulting Projects	N/A	0	4 ^A
Office of Audit Services Internal Activities	10	8	1



^A – Includes projects started in the prior fiscal year as shown in Attachment 1D.

2. Findings Trends - Public Agency Reviews

During the first half of Fiscal Year 2008/09, we completed 21 reviews of contracting entities. The most frequently reported issues were incorrect reporting of compensation, payroll reporting errors, not properly maintaining ACES security documents and health eligibility issues. The following table is a summary of the findings included in the audit reports issued during Fiscal Year 2008/09.

Type of Finding – FY 2008/09	Number of Agencies	Number of Findings
Compensation	18	37
Payroll reporting errors	14	29
ACES security documents	15	27
Health eligibility	18	26
Enrollment	16	23
Retirement contributions/payroll information not reported timely	9	14
Unused sick leave	10	10
Payrate reporting errors	6	7
Retired annuitants	5	5
Health payments not submitted timely	4	4
Alternative health plan	1	1
Member misclassified as safety	1	1

Members of the Finance Committee
March 13, 2009

HIPAA-Related Findings

At the request of the Finance Committee, we have included a special update on the resolution status of findings related to Health Insurance Portability and Accountability Act (HIPAA) reviews conducted by Office of Audit Services. The status of the remaining findings we originally reported in August 2004 and October 2006 is found in Attachment 3B of this agenda item. The status of HIPAA findings as of December 31, 2008, is as follows:

Findings Status	In Progress	Complete
Number of Findings	35	1

Internal Audits

During the first half of Fiscal Year 2008/09, we completed 14 internal audit projects. We reported on a wide variety of issues related to improvements to the internal controls over contracting activities, compensation review activities, derivatives, and contract compliance at three external investment managers.

Health Plan Audits

We completed one audit of health plan contract compliance during the first half of the fiscal year with another issued in draft awaiting response as of December 31, 2008. The main issues identified in the completed audit include the need for improved controls over a number of accounting and related activities.

Financial Statement Audits

Macias Gini & O'Connell, LLP reported on the results of the annual independent audit of the Systems' financial statements at the November 2008 Finance Committee meeting, and presented a Management Letter of its comments and findings at the February 2009 Finance Committee meeting. The current year findings are included in Attachment 3A of this agenda item. The Management Letter also included updates on the prior year's findings, which are included in Attachment 3B of this agenda item. Office of Audit Services plans to provide the Finance Committee with quarterly updates on the progress toward resolution of these findings.

Real Estate Audits

The external real estate audit firms completed eight audits during the first half of Fiscal Year 2008/09. The most frequently reported issues are related to property managers' oversight, unallowable costs, and record keeping.

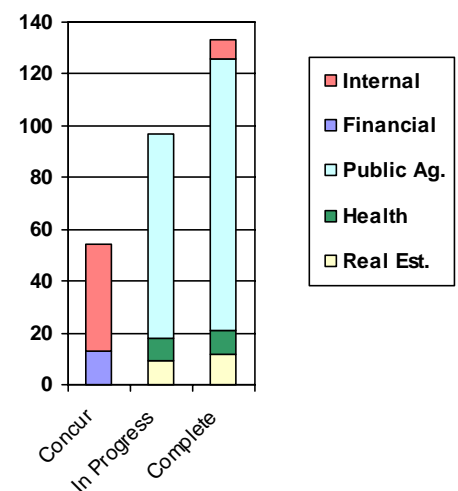
3. Findings / issues resulting from auditing work

Consistent with the Board-Approved Audit Resolution Policy and Procedures, the Office of Audit Services continued to work with management to resolve all outstanding issues. Management is taking satisfactory action toward this end.

A status of *Concur* indicates management has agreed with the finding and plans corrective action. *In Progress* indicates management is taking corrective action. *Complete* status indicates satisfactory resolution of the finding. *Unresolved* status indicates management does not agree with the finding or recommendation or has not taken adequate action; in such a case, the finding is referred to executive management for resolution.

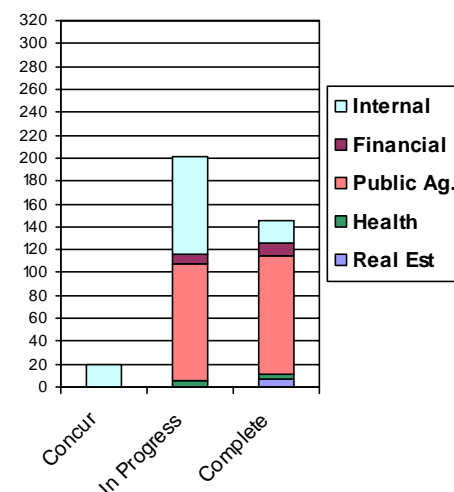
A. Findings / issues resulting from current year projects. Detail on all current fiscal year findings is included on Attachment 3A of this agenda item.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	41	0	7	0
Financial Audits	13	0	0	0
Public Agency Reviews	0	79	105	0
Health Plan	0	9	9	0
Real Estate Audits	0	9	12	0
Total	54	97	133	0



B. Findings / issues resulting from prior years' projects. Detail on all prior year findings is included in Attachment 3B of this agenda item.

Activity	Concur	In Progress	Complete	Unresolved
Internal Audits	19	85	20	0
Financial Audits	0	9	11	0
Public Agency Reviews	0	101	104	0
Health Plan Audits	0	6	4	0
Real Estate Audits	0	0	7	0
Total	19	201	146	0



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March 13, 2009

V. STRATEGIC PLAN:

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and Procedures and the Office of Audit Services Charter.

VI. RISKS/COST:

This is an information item and does not result in any risks/costs. Staff is available to answer any questions that the Finance Committee may have.

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Office of Audit Services

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Office of Audit Services

PETER H. MIXON
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